

Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 IO-13 ISO-00 SP-02 USIA-06 AID-05

EB-08 NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01

CIAE-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 AGRE-00 /095 W

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 4798

INFO USMISSION GENEVA

C O N F I D E N T I A L BOGOTA 10755

USMTN FOR MTN GENEVA

EO 11652: GDS

TAGS: ETRD, GATT, MTN, CO

SUBJ: REVIEW OF LOCAL CONTENT REQUIREMENTS

REF: STATE 258716

1. LOCAL CONTENT REQUIREMENTS ARE IMPOSED IN COLOMBIA ON AUTOMOBILE, AIRPLANE, ELECTRONIC AND SOM PUMP EQUIPMENT ASSEMBLY INDUSTRIES. LCRS ARE UTILIZED TO ENCOURAGE AND PROTECT LOCAL INDUSTRY IN CONJUNCTION WITH OTHER NTBS, SUCH AS IMPORT LICENSES, AND EXTREMELY HIGH TARIFFS. LCR LEGAL REGULATIONS ARE GENERAL IN NATURE WITH INDIVIDUAL FIRMS AGREEING SEPARATELY WITH GOC ON SPECIFICS. DIFFERENT ASSEMBLERS WITHIN SAME SECTOR HAVE DIFFERENT SPECIFIC LOCAL CONTENT REGULATIONS WITHIN GENERAL GUIDELINES. EXACT TERMS OF ASSEMBLY INVESTMENT WILL DEPEND UPON IMPORTANCE OF INVESTMENT, TIMING, NEGOTIATING ABILITY, ETC. ABOVE MAKES PRECISE DESCRIPTION OF SYSTEM VERY DIFFICULT.

2. LCRS FOR AUTOMOTIVE SECTOR APPEAR TO BE ILLUSTRATIVE OF RULES FOR OTHER SECTORS. GOC INDUSTRIAL LAW DIFFERENTIATES BETWEEN ASSEMBLERS (LESS THAN 40 PERCENT OF PHYSICAL PARTS LOCAL) AND CONFIDENTIAL

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MANUFACTURERS (MORE THAN 40 PERCENT LOCAL CONTENT) (ALTHOUGH NOT NOW BEING IMPLEMENTED, LAW MANDATES THAT ONLY ASSEMBLERS CAN IMPORT CKD KITS, WHICH CARRY TARIFF OF 7-10 PERCENT. MANUFACTURERS OBLIGED TO IMPORT PARTS SEPARATELY WHERE TARIFFS RANGE TO 45 PERCENT. THIS REPRESENTS VARIANT OF LCR NTB.) WHEN REQUESTING APPROVAL OF ORIGINAL INVESTMENT, AUTO ASSEMBLER MUST SUBMIT LIST OF PARTS TO BE SOURCED LOCALLY. GOC HAS LIST OF ALL LOCAL PARTS

ASSEMBLERS AND WILL REFUSE TO GRANT IMPORT LICENSE FOR "EQUAL OR ANALOGOUS" PARTS MADE IN COLOMBIA. THUS INVESTOR MUST START WITH MINIMUM LOCAL CONTENT REQUIREMENT. GOC AND INVESTOR THEN NEGOTIATE INCREASE OF THIS MINIMUM OVER FUTURE TIME PERIOD. WHEN INVESTMENT IS MADE, DETAILED LIST OF LOCALLY SOURCED PARTS IS NEGOTIATED AND LIST CAN ONLY BE REDUCED IF UNFORSEEABLE CIRCUMSTANCES ARISE; I.E. BANKRUPTCY OF ONLY SUPPLIER, DELAY IN SUPPLY, ETC. LOCAL CONTENT IS EXPECTED TO BE EXPANDED AS NEW PARTS BECOME MANUFACTURED IN COLOMBIA. LCRS, AND OTHER NTBS SUCH AS IMPORT LICENSES, ARE COMPLEMENTED BY TARIFFS OF UP TO 300 PERCENT ON CBU UNITS OR UP TO 45 PERCENT ON PARTS.

3. AS OF PRESENT, TWO OF THREE AUTOMOBILE FIRMS ARE SOURCING LESS THAN 40 PERCENT IN COLOMBIA. FIAT 128-B SOURCED FROM ARGENTINA IS 38 PERCENT LOCAL CONTENT WHILE 6-CYLINDER DODGE DART IS 34 PERCENT DOMESTIC. AVERAGE LOCAL CONTENT OF THESE TWO FIRMS IS ABOUT 33 PERCENT. THIRD FIRM, RENAULT, REPORTEDLY HAS AVERAGE LOCAL CONTENT OF APPROXIMATELY 47 PERCENT.

4. GOC'S UNILATERAL NEGOTIATING STANCE ON LCRS IS CLEARLY LIMITED BY ITS MEMBERSHIP IN ANDEAN GROUP WHICH HAS JUST NEGOTIATED PROGRAM FOR INTEGRATED ASSEMBLY, AND ULTIMATE MANUFACTURE, OF AUTOMOBILES AND TRUCKS. AUTOMOTIVE PROGRAM BEING HAILED AS IMPORTANT STEP IN FURTHER ANDEAN GROUP INTEGRATION AND GOC WOULD FIND IT POLITICALLY DIFFICULT TO UNILATERALLY CHANGE MECHANISM AS IMPORTANT TO DOMESTIC PRODUCTION AS LCR
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SYSTEM. AND, AS PROGRAM IS IMPLEMENTED, GOC WILL FIND ITSELF PROGRESSIVELY MORE LOCKED INTO LCR SYSTEM.

5. GOC APPARENTLY BELIEVES THAT PROTECTION FOR AUTOMOBILE ASSEMBLY INDUSTRY, INCLUDING LCR REGULATIONS, HAS BEEN AND IS BENEFICIAL FOR ECONOMIC DEVELOPMENT. THE POLICY HAS BEEN IN EFFECT FOR SEVERAL YEARS. GOC OFFICIALS CITE CREATION OF 25-30,000 DIRECT OR INDIRECT JOBS AND NOTE LARGE ANNUAL DIRECT FOREIGN EXCHANGE SAVINGS. ENTRENCHED LOCAL INDUSTRY NOW IS POWERFUL FACTOR IN PROMOTING EXTENSION OF SYSTEM. EMBASSY ASSESSMENT OF IMPORTANCE OF LCR TO COLOMBIAN DEVELOPMENT WOULD REQUIRE CONSIDERABLE ANALYSIS AND, IN FACT, EVEN WITHIN COLOMBIAN FINANCIAL AND INDUSTRIAL CIRCLES THERE IS SOME DISCUSSION OF WHETHER HIGH COST ASSEMBLY INDUSTRY SHOULD CONTINUE TO RECEIVE PROTECTION.

6. ACCORDING LOCAL SOURCES, LOCAL CONTENT IN PUMPS IS APPROXIMATELY 10-15 PERCENT AND ABOUT 25 PERCENT FOR SMALL AIRCRAFT. LCR SYSTEMS SIMILAR TO AUTOMOTIVE.

7. GOC RECENTLY IMPOSED ADDITIONAL NTB BY PROHIBITING ALL IMPORTS OF 8-CYLINDER CBUS. RATIONALE WAS NEED TO CONSERVE FUEL. THIS WILL HAVE RELATIVELY MORE SIGNIFICANT EFFECT ON US FIRMS IN

COMPARISON TO MANUFACTURERS OF SMALLER CARS.

8. EMBASSY'S TENTATIVE ASSESSMENT IS THAT REMOVAL OF LCRS
PROBABLY WOULD NOT BENEFIT IN SHORT TERM US INDUSTRY. US CBUS
NOT COMPETITIVE WITH SMALL EUROPEAN AND JAPANESE CBUS BECAUSE
OF ROAD & TRAFFIC CONDITIONS AND FUEL COSTS. GOC MEASURE
LIMITING CYLINDERS CLEARLY MOVE IN DIRECTION OF AUTOMOBILE
AUSTERITY. ADDITIONALLY, REMOVAL OF LCRS STILL LEAVES GOC WITH
FORMIDABLE TOOLS SUCH AS LICENSING SYSTEM AND PROTECTIVE TARIFFS.
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